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AUTHOR Cliatt, Katherine H.
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ABSTRACT

Support performance objectives of the V-TECS Education Consortium of States) Bookeeper Catalog, a set of student materials and an instructor's manual on recording accounting entries pertaining to notes and interest are included in this module. (This module is the ninth in a set of ten on bookkeeping [CE 019 480-489].) The student materials include two learning activities, three student self checks, (with answers) and pre- and posttests. The instructor's manual includes a key to the pre- and posttests and various accounting forms to be duplicated. The materials are designed for self-paced individual instruction and may be adapted for use with large groups. (A related set of modules on banktelling [CE 019 471-478] is also available.) (JH)

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VI–G

RECORDING ACCOUNTING ENTRIES PERTAINING TO NOTES AND INTEREST

STUDENT'S MANUAL

Prepared by

Mrs. Katherine H. Cliatt

State Department of Education
Office of Vocational Education
Office Occupations Education
Columbia, South Carolina 29201

In Cooperation With

Vocational Education Media Center
Clemson University
Clemson, South Carolina 29631

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Anne L. Matthews

Anne L. Matthews, State Supervisor
Office Occupations Education

INTRODUCTION TO BOOKKEEPER INSTRUCTIONAL MATERIALS

The modules developed in South Carolina for the bookkeeper catalog are designed to provide audio, visual, and printed supplementary materials needed by the instructor and/or student to achieve the objectives stated in the catalog. The materials were designed as modules so that they may be flexibly inserted into an on-going program, as well as provide for maximum utilization via a rotation schedule.

These materials provide supplemental units of instruction in the following areas:

Module No.	Tasks	Performance Objective Nos.
I-G	Preparing Shipments for Freight Express	79
IV-K	Completing a Purchase Order Invoice	51
IV-J	Recording Discounts on Sales Invoices	50
IV-N	Preparing Memos for Goods Returned	54
IV-I	Typing Tabulated Materials	49
VI-G	Recording Entries Pertaining to Notes and Interest	13
VI-J	Recording Entries Pertaining to Sales Tax	16
	Accounting Forms	16

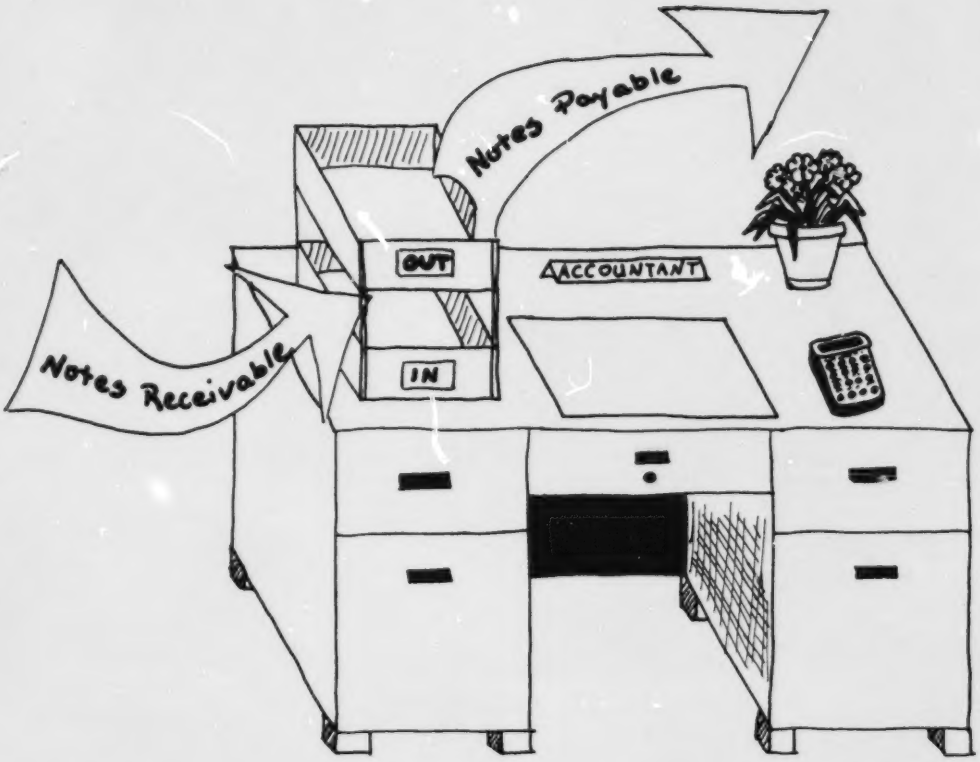
The modules typically include a performance objective, definitions, prerequisites, equipment, introduction, directions, learning activities, self checks, and tests (pre and post). The instructor's manual contains notes, keys, forms for duplication, instructor's checklists, scripts for recording, and supplementary materials.

Before you release the packages to your students, review each package within your department, discuss how to best utilize the materials, choose the desired course, and plan the sequence for each unit of instruction. Other considerations are required:

1. Insure that necessary equipment is available and in proper working order.
2. Insure that necessary audio materials are recorded and easily available.
3. Obtain the necessary equipment needed for filmstrip viewing and listening.
4. Replenish consumable supplies after each student completes the module.

The modules may be used in the following courses: Office Procedures, Cooperative Office Education, Senior Intensified Program, Bookkeeping, Accounting, Typewriting, Business Mathematics, and Office Machines.

Perhaps a rotation plan could be devised to provide each student with an orientation or a review of simple bookkeeper duties. A teacher may, however, select single modules, provided no prerequisite skills are listed.


Notes Payable
OUT
ACCOUNTANT
Notes Receivable
IN

PERFORMANCE OBJECTIVE:

Given 13 business transactions pertaining to notes and interest, and the appropriate journals and registers, record at least 10 of the 13 entries without error.

DEFINITIONS OF TERMS:

There may be a few terms used in this module with which you are not now familiar, and there may be some terms you have heard used but are not exactly sure of their definitions. Some of these words or terms are defined below. When they are used in this module, they will be underlined so that if you have forgotten their definitions you may turn back to this page to see what they mean.

extension of time – additional time in which to pay a bill that is already owed. Example: Calvin Printer asked Mr. Lewis for an entension of two weeks on his October bill.

legally binding – can be enforced or backed up in a court of law if necessary. Example: The contract signed last Friday is legally binding both companies to the new agreement.

notes payable – a legally binding written statement to pay to a certain person or company an amount of money on a definite day and sometimes with interest. Example: A note payable is a liability account that Lake Company incurs when it borrows money for a short time.

notes receivable – a legally binding written statement from someone who is agreeing to pay to you a certain amount of money on a definite date and sometimes with interest. Example: A note receivable is an asset account that is usually found in businesses that sell costly goods on long-term credit.

on account – purchasing or selling through credit rather than with cash; agreeing to pay monthly payments. Example: Rodney purchased his new stereo on account; his payments are $39.75 per month for three years.

promissory note – a note signed by an individual agreeing to pay an amount of money to someone on a certain date, sometimes with interest; a note payable or a note receivable is a promissory note. Example: Landers Incorporated issued a promissory note for $1,500 yesterday; it is due in two months.

PREREQUISITES:

Before beginning this module on recording accounting entries pertaining to notes and interest, you should read the Performance Objective and the Definitions of Terms which will be used in this module.

You should already know and understand entries concerned with Accounts Receivable and Payable, the subsidiary ledgers, the General Journal, and the Cash Receipts and Cash Payments Journals. You should be able to work with percentages and at least be familiar with the formula:

INTEREST = RATE X PRINCIPAL X TIME

If you believe that you already know how to record entries pertaining to notes and interest, you may take the Pre-Test. If you record at least 10 of the 13 entries on the Pre-Test without error, you do not need to complete this module. If you did not record at least 10 without error, or if you did not choose to take the Pre-Test, proceed to the Introduction.

EQUIPMENT, TOOLS, RESOURCES, AND SUPPLIES:

You will need accounting forms which will be supplied by your instructor as you need them. You may use a 10-key adding machine, hand calculator, or desk calculator if you wish. Your "head", along with a pen and pencil, will probably be fine for the figuring you will be doing. You might find your accounting textbook helpful.

INTRODUCTION:

If you work for a big company which has a large number of Accounts Receivable, or if you work for a company which purchases from various companies on account, you should certainly know how to make accounting entries related to notes receivable and payable. Why? Because there are some very common circumstances which call for the use of this knowledge as you will see when you have completed this module.

Upon completion of this module, you should know how to successfully figure due dates on notes, how to figure interest, how to figure a discount on a note, and how to determine the maturity value of notes payable and notes receivable. In addition, you should be able to make whatever entries are necessary in both journals and registers for all the situations presented involving notes and interest. Let's begin.

PRE-TEST/POST-TEST

You are to make the following entries in the appropriate journals and registers. Your instructor will supply the necessary forms you will need to complete this test. Your instructor will also indicate whether you are to use pen or pencil. DO NOT WRITE ON THIS PAGE. When you have completed this test, turn it in to your instructor who will correct it. Use the current year when making entries.

Sept. 1 Kent Martin signed our note receivable No. 38 for $250 for 30 days at 8% for an extension of time on his account. The date of the note is September 1.

1. Make the necessary entry in the proper register.
2. Make the necessary entry in the proper journal.

Sept. 3 Cliff Arnetter paid his note No. 36 for $600 plus 8% interest. The 60-day note was due September 3.

3. Make the necessary entry in the proper register.
4. Make the necessary entry in the proper journal.

Sept. 4 Your company issued note payable No. 17 to Third National Bank for a loan of $18,000 for 90 days at 8½% interest to be paid on the due date.

5. Make the necessary entry in the proper register.
6. Make the necessary entry in the proper journal.

Sept. 7 Your company decided to send a note payable No. 18 to Dickertt Corp. for an extension of time on account. The note is a 30-day note at 7% for $525.

7. Make the necessary entry in the proper register.
8. Make the necessary entry in the proper journal.

Sept. 14 You received a check from Bert Dent for the principal of $200 plus 8% interest on his 60-day note receivable No. 37 due today.

9. Make the necessary entry in the proper register.
10. Make the necessary entry in the proper journal.

Oct. 1 The bank just sent notice that it has collected note receivable No. 38 plus the interest due. The service charge is $1.50.

11. Make the necessary entry in the proper register.
12. Make the necessary entry in the proper journal.

Oct. 7 You paid note payable No. 18 to Dickertt Corp. plus the interest due.

13. Make any necessary entries.

1. Read Instruction Sheet I entitled "Entries Pertaining to Notes and Interest Receivable." Think through each of the examples presented. If you have difficulty following the arithmetic figuring, either consult your accounting textbook or ask your instructor for help.

2. Student Self-Check I will give you an opportunity to see whether you have learned how to compute due dates, compute interest, and determine which accounts would be debited and credited. This "test" will not be graded, and you will be able to check it yourself.

3. Read Instruction Sheet II entitled "Entries Pertaining to Notes and Interest Payable." Think through each of the examples presented. If you have difficulty following the arithmetic figuring, either consult your accounting textbook or ask your instructor for help.

4. Student Self-Check II will give you an opportunity to see whether you have learned how to compute due dates, compute interest, and determine which accounts would be debited and credited for notes payable. As in Student Self-Check I, this self-check will not be graded and you will check it yourself.

5. Student Self-Check III is designed to help you determine whether you understand what has been presented in this module. It does not require any figuring of due dates or interest. You will check your own paper. If you did well on the three self-checks, you are ready to take the Post-Test. You may go back over any of the materials presented before you ask your instructor for the materials for the Post-Test. Ask your instructor if you feel you need additional help with anything presented.

6. Ask your instructor for the forms for the Post-Test. When you have completed the Post-Test, give it to your instructor for correction.

INSTRUCTION SHEET I

Entries Pertaining to Notes and Interest Receivable

What is a promissory note? A promissory note is a legally binding written promise to pay a certain amount of money at a definite date, signed by the party agreeing to make the payment. The promissory note is called a note receivable when it is received by a business.

Under what circumstances would a business generally have a note receivable?

1. Merchandise is sometimes sold to customers for promissory notes rather than for cash or on account.

2. Promissory notes may be used to give an extension of time to a customer who has already purchased from you on account but is finding it difficult to pay the bill on time.

The account, Notes Receivable, is an asset account and is classified as a current asset. Notes Receivable is normally debited when a note is received. What will be credited is determined by the situation. The balance of the Notes Receivable account should be the total of the unpaid notes receivable that you still have on hand.

Notes receivables are used as legal evidence of a debt and may earn interest. Also, they are transferable. Notes receivables may be cashed at a bank if a company doesn't wish to hold it until its due date. This process is called discounting a note.

The examples which follow are explained in detail. Try to decide for yourself as you read through them what would be debited and credited before you look at the explanation and solution. At the end of Instruction Sheet I there is a Cash Receipts Journal, A General Journal, and a Notes Receivable Register. The solution to each example is number coded to the number of the example. As you work through these examples on your scratch paper, refer to the journal pages to see whether you're working in the right direction.

1. On May 4, 19--, Mr. D.C. Detts gave the company you work for a 60-day, 8% note to give him an extension of time on his account. His account shows a balance of $350.

   Procedure:

   (a) Figure due date on the note (use actual days in each month)

   May has 31 days total
   May 4 is date of the note
   27 days note will be held in May
   + 30 days note will be held in June
   57 days note will be held through June

   60-day note
   −57 days through June
   3 days in July

   Due Date = July 3

   (b) Make entry in the Notes Receivable Register (do not make an entry in the date paid column nor the comment column).

   (c) Make the entry in the General Journal. (No cash is involved yet—do not figure interest until note is paid.)

2. On May 6, 19--, your company received payment of $200 for a non-interest bearing note from Anderson Brothers. Non-interest bearing means that there will be no interest on the note.

   Procedure:
   (a) Look in the Notes Receivable Register to determine the note number and due date. Make the necessary notation to show that the note is being paid and the date paid.

   (b) Make the necessary entry in the Cash Receipts Journal

3. On May 8, 19--, your company received notice from your bank that it had collected your non-interest bearing note due May 8 from J.C. Jackson for $250. There is a $2.50 bank charge for this service. Your account at the bank has been credited with the difference between the principal (the amount of the note) and the service charge. This service charge is debited to an account called Miscellaneous Administrative Expense.

   Procedure:
   (a) Look in the Notes Receivable Register to determine the note number and due date. Make the necessary notation to show that the note has been paid and the date paid.

   (b) Make the necessary entry in the Cash Receipts Journal.

4. On May 8, 19--, you received a promissory note, No. 308, from Bessie Meyers for $150 for an extension of time for 30 days at an interest rate of 6%.

   Procedure:
   (a) Figure the due date.

May has 31 days total	30-day note
May 8 is date of the note	−23 days to be held in May
23 days note will be held in May	7 days to hold in June

Due Date = June 7

   (b) Make the necessary entry in the Notes Receivable Register.

   (c) Make the necessary entry in the General Journal (no cash yet).

5. On May 12, 19--, Lester Smith bought merchandise by signing our note, No. 309, for $250 for 60 days at 6% interest. The date of the note was May 10.

   Procedure:
   (a) Figure the due date.

May has 31 days total	60-day note
May 10 date of note	−51 days through June
21 days note will be held in May	9 days note will be held in July
30 days note will be held in June	
51 days note will be held through June	

Due Date = July 9

   (b) Make the entry in the Notes Receivable Register.

   (c) Make the entry in the General Journal (no cash involved yet).

6. On May 14, 19--, you received a note receivable, No. 310, dated May 12, from Jack Baker & Sons for $575 for 60 days at 8% for an extension of time on their account.

Procedure:
(a) Figure the due date.

May has 31 days total
May 12 date of note
19 days note will be held in May
30 days note will be held in June
49 days note will be held through June

60-day note
–49 days through June
11 days note will be held in July

Due Date = July 11

(b) Make the entry in the Notes Receivable Register.

(c) Make the entry in the General Journal (no cash is involved yet).

7. On June 3, 19--, you discounted note No. 307 for $350 at the bank at a discount rate of 7%. This means that instead of holding the note until its due date and collecting it at that time, you are more or less "selling" it to the bank at a rate called a discount rate. You lose a little interest on the transaction, but you have the advantage of getting the principal before it is actually due.

Procedure:
(a) Figure the maturity value of the note. The maturity value is the amount of the principal plus interest due at the end of the number of days specified on the note.

Interest = Principal X Rate X Time (based on a 360 day year)

Interest = $350 X 8% X 60 days

$350 X .08 = $28.00 (interest for 1 year)
(Note was for 60 days which is 60/360 which is 1/6 of a year.)

1/6 X $28 = $4.33 interest on the note

Maturity Value = Principal + Interest
$354.33 = $350.00 + 4.33

(b) Figure the discount.

The date of the note is May 4; we are discounting the note on June 3; we have, therefore, held the note a total of 30 days. the bank will hold the note the other 30 days before it is due since it was a 60-day note.

Discount = Maturity Value X Discount Rate X Days bank will hold

$354.33 X 7% X 30 days

$354.33 X .07 = 24.8031 (discount for 1 year)
(30 days is 30/360 or 1/12 of a full year.)

$24.80 X 1/12 = $2.07 (discount for 1 month)

(c) Figure amount to be received from the bank.

Maturity Value – Bank Discount = Amount to be received from bank

$354.33 – 2.07 = $352.26

(d) Make a notation in the Notes Receivable Register that the note is being discounted at the bank and the date of the discounting.

(e) Make the entry in the Cash Receipts Journal.

Amount to be received from the bank = $352.26
Amount of the note = 350.00
Interest Income = $ 2.26

8. On June 7, 19--, received payment for a note receivable, No. 308, for $150 plus interest due at 6% for 30 days.

Procedure:
(a) Figure the interest due on the note.

$150 X 6% X 30 days

$150 X .06 = $9.00 (Interest for 1 year.)
(30 days is 1/12 of a year.)

$9 X 1/12 = $.75 interest on note

(b) Make a notation in the Notes Receivable Register that the note is being paid and the date it is being paid.

(c) Make the necessary entry in the Cash Receipts Journal.

9. On July 9, 19--, you received a check from Lester Smith for the note due plus interest due on the note.

Procedure:
(a) Look in the Notes Receivable Register to determine the due date and interest rate if any. Make a notation that the note has been paid and the date on which it was paid.

(b) Figure the interest due on the note.

$350 X 6% X 60 days

$350 X .06 = $21.00 (Interest for 1 year)
A Shortcut: 60-day, 6% Method of figuring interest: Move the decimal place two places to the left in the principal. ($350 = $3.50 interest)

(60 days is 1/6 of a year)

$21 X 1/6 = $3.50

(c) Make the necessary entry in the Cash Receipts Journal.

10. On July 11, 19–, you received notice from the bank that it had collected note receivable No. 310 from Jack Baker & Sons including the interest due. There is a bank service charge of $4.25 for collecting this note.

Procedure:

(a) Make a notation in the Notes Receivable Register that the note has been collected and the date on which it was collected.

(b) Figure the interest due on the note.

$575 X 6% X 60 days = $5.75 Interest

$575 X .06 = $34.50 (Interest for 1 year) (6%, 60-day Method)
(60 days = 1/6 of a year)

1/6 X $34.50 = $5.75 Interest

(c) Make the necessary entry in the Cash Receipts Journal.

Amount received by the bank =	$575.00	Principal
	+ 5.75	Interest
	$580.75	Total received by bank
Bank Service Charge	– 4.25	
	$576.50	Total amount you receive for the note.

CASH RECEIPTS JOURNAL

	DATE		ACCOUNT TITLE	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	SALES CREDIT	ACCOUNTS RECEIVABLE CREDIT	CASH DEBIT
	19--								
2	May	6	Notes Receivable (No. 305)			200.00			200.00
3		8	Notes Receivable (No. 306)			250.00			247.50
			Misc. Adm. Expense		2.50				
7	June	3	Notes Receivable (No. 307)			350.00			352.26
			Interest Income			2.26			
8		7	Notes Receivable (No. 308)			150.00			150.75
			Interest Income			.75			
9	July	9	Notes Receivable (No. 309)			350.00			353.50
			Interest Income			3.50			
10		11	Notes Receivable (No. 310)			575.00			576.50
			Interest Income			5.75			
			Misc. Adm. Expense		4.25				

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NOTES RECEIVABLE REGISTER

DATE RECEIVED		NOTE NO.	RECEIVED FROM	DATE OF NOTE YR.	DATE OF NOTE MO.	DATE OF NOTE DAY	TIME	DUE DATE YR.	DUE DATE MO.	DUE DATE DAY	PRINCIPAL AMOUNT	RATE OF INTEREST	DATE PAID	COMMENT
April	7	305	Anderson Brothers		4	6	30 DA		5	6	$200.00	---	[2] 5/6	paid in full
	9	306	J.C. Jackson		4	8	30 DA		5	8	$250.00	---	[3] 5/8	paid in full
[1] May	4	307	A.C. Betts		5	4	60 da		7	3	350.00	8%	--	[7] discounted 6/3
[4]	8	308	Bessie Meyers		5	8	30 da		6	7	150.00	6%	[8] 6/7	paid in full
[5]	12	309	Lester Smith		5	10	60 da		7	9	350.00	6%	[9] 7/9	paid in full
[6]	14	310	Jack Baker & Sons		5	12	60 da		7	11	575.00	6%	[10] 7/11	paid in full

GENERAL JOURNAL PAGE

	DATE		ACCOUNT TITLE	POST. REF.	DEBIT		CREDIT	
1	May	4	Notes Receivable		350	00		
			Accts Rec./D.C. Ditto	/			350	00
			our note No. 307					
4		8	Notes Receivable		150	00		
			Accts Rec./Bessie Myers	/			150	00
			our note No. 308					
5		12	Notes Receivable		350	00		
			Sales				350	00
			our note No. 309					
6		14	Notes Receivable		575	00		
			Accts Rec./J. Baker & Sons	/			575	00
			our note No. 310					

STUDENT SELF-CHECK I

DO NOT WRITE ON THIS PAGE. Number on a plain sheet of paper from 1 through 13. Read the examples below and answer the questions which follow. You are to do your figuring on a scratch sheet of paper. This self "test" should give you a good idea of how well you understand Instruction Sheet I. If necessary, you may look back at the Instruction Sheet or you may use a textbook. You will not be graded on the self-check. When you have answered all of the questions, turn to the back of this packet and check your answers.

On June 5, 19–, you accepted for your company notes receivable No. 314 for $380 from James Whitehead Company for an extension of time on their account. The note is a 60-day, 8½% note.

1. What is the due date of the note?
2. In which journal would you record the receipt of this note?
3. What is the amount of the principal?
4. What is the amount of interest due in 60 days?
5. What is the maturity value of the note?

If the note is paid to you at the end of the 60 days, what account(s) would you debit and what account(s) would you credit?

6. Debit:
7. Credit:
8. In which journal would these entries be made?
9. When the note was paid, what would you write in the Notes Receivable Register?

If, after holding the note for 30 days, you decided that you did not want to wait until the end of the 60 days to collect the note, you discounted the note at the bank at a discount rate of 7%.

10. What would be the amount of the discount?
11. What would be the amount of the proceeds?
12. What amount would be credited to Interest Income?
13. What amount would be debited to Miscellaneous Administrative Expense?

INSTRUCTION SHEET II

Entries Pertaining to Notes and Interest Payable

In this Instruction Sheet you will be looking at notes and interest from a different viewpoint. When a company issues promissory notes to its creditors, these notes become notes payable. Notes Payable is a liability account. Common reasons for using notes payable are:

1. To borrow money
2. To purchase merchandise on a note rather than for cash or charging it on account
3. To obtain an extension of time on an amount already owed on account

Read through the following entries very carefully to be sure that you understand the procedure. Try to determine what you would debit and credit before you look at the explanation and solution at the end of the instruction sheet. The solutions are number coded to correspond with the number of the example.

1. On May 15, 19--, your company borrows $10,000 from the Second Citizens Bank by issuing a 60-day, 8% note, No. 115, under an agreement that the interest would be paid at the end of the 60 days. (Banks sometimes require that the interest be paid in advance.)

   Procedure:
   (a) Make the entry in the Notes Payable Register.

   (b) Make the entry in the Cash Receipts Journal to show the receipt of the $10,000. (No interest will be figured until you actually pay the note.)

2. On July 14, 19--, you pay note payable No. 115.

   Procedure:
   (a) Make the notation in the Notes Payable Register to show that the note has been paid and the date paid.

   (b) Figure the interest due on the note.

   $10,000 X 8% X 60 days

   $10,000 X .08 = $800.00 (Interest for 1 year)
   (60 days is 1/6 of a year)

   1/6 X $800 = $133.33 interest on the note

   The amount due on the note:

Principal	=	$10,000.00
Interest	=	133.33
Total Due	=	$10,133.33

   (The interest paid on the note is Interest Expense)

   (c) Make the necessary entry in the Cash Payments Journal.

3. On August 1, 19–, your company borrows $5,000 at a discount rate of 8% for 90 days. What this means is that the interest on the money is taken out of the principal before you receive the money. This is note payable No. 116, payable to Second Citizens Bank.

Procedure:
(a) Make the entry in the Notes Payable Register.

(b) Figure the discount.

$5,000 X 8% X 90 days

$5,000 X .08 = $400.00 (Interest for 1 year)
(90 days is 1/4 of a year)

1/4 X $400 = $100 discount

(c) Make the necessary entry in the Cash Receipts Journal.

$5,000 = Principal
100 = Discount (Interest Expense)
$4,900 = Amount of money you will add to your account

4. On August 5, 19–, you issue note payable No. 117 to Smith Associates for an extension of time on your account with them. The amount of the note is $576 for 60 days at 6½%.

Procedure:
(a) Make the entry in the Notes Payable Register.

(b) Figure the due date.

August has	31	days total	60	days
August	5	date of the note	–56	days
	26	days to be held by Smith Associates in August	4	days to be
+	30	days to be held by Smith Associates in September		held in October
	56	days to be held by Smith Associates through September		

Due Date = October 4

(c) Make the necessary entry in the General Journal (no cash involved yet).

5. On October 4, 19–, you paid note payable No. 117 to Smith Associates plus the interest due.

Procedure:
(a) Make the notation in the Notes Payable Register.

(b) Figure the interest due.

$576 X 6½% X 60 days

$576 X .065 = $37.44000 (Interest for 1 year)
(60 days is 1/6 of a year)

1/6 X $37.44 = $6.24 interest due

(c) Make the entry in the Cash Payments Journal.

CASH RECEIPTS JOURNAL

DATE		ACCOUNT TITLE	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	SALES CREDIT	ACCOUNTS RECEIVABLE CREDIT	CASH DEBIT
19--								
May	15	Notes Payable (No. 115)			10,000.00			10,000.00
Aug.	1	Notes Payable (No. 116)			5,000.00			4,900.00
		Interest Expense		100.00				

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CASH PAYMENTS JOURNAL

DATE		ACCOUNT TITLE	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	ACCOUNTS PAYABLE DEBIT	PURCHASES DEBIT	CASH CREDIT
2 19-- July	14	Notes Payable (No. 115)		10,000.00				10,133.33
		Interest Expense		133.33				
5 Oct.	4	Notes Payable (No. 119)		576.00				582.24
		Interest Expense		6.24				

NOTES PAYABLE REGISTER

DATE ISSUED		NOTE NO.	PAYABLE TO	DATE OF NOTE YR.	MO.	DAY	TIME	DUE DATE YR.	MO.	DAY	PRINCIPAL AMOUNT	RATE OF INTEREST	DATE PAID	COMMENT
1 19-- May	15	115	Second Citizens Bank		5	15	60 da		7	14	10,000	8%	2 7/14	paid in full
3 Aug.	1	116	Second Citizens Bank		8	1	90 da		10	30	5,000	discount rate 8%		
4	5	117	Smith Associates		8	5	60 da		10	4	576	6½%	5 10/4	paid in full

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GENERAL JOURNAL PAGE

DATE		ACCOUNT TITLE	POST. REF.	DEBIT	CREDIT
4 19-- Aug.	5	Acct's Payable / Smith Conc.	/	576.00	
		Notes Payable			576.00
		Note No. 117			

STUDENT SELF-CHECK II

DO NOT WRITE ON THIS PAGE. Number on a plain sheet of paper from 1 through 11. Read the examples below and answer the questions which follow. You are to do your figuring on a scratch sheet of paper. This self "test" should give you a good idea of how well you understand Instruction Sheet II. If necessary, you may look back at the Instruction Sheet or you may use a textbook. You will not be graded on the Self-Check. When you have answered all of the questions, turn to the back of this packet and check your answers.

On April 6, 19–, you borrowed $6,000 for your company through the Downtown City Bank on a 60–day, promissory note payable No. 58. The note was discounted at 7%

1. What was the amount of the discount?
2. How much money did you receive on April 6 from the bank?
3. How much money would your company pay the bank on June 5?
4. When the money was received, which journal would the entry have been made in?
5. When the money was received on April 6, what account(s) did you debit?
6. When the money was received on April 6, what account(s) did you credit?

On April 14, 19–, you issued notes payable No. 97 to Jackson Company for an extension of time on your account. The note was for $300 for 60 days at 6%.

7. When the note was issued, in which journal was the entry recorded?
8. What account(s) was (were) debited?
9. What account(s) was (were) credited?
10. What is the amount of interest due on the note?
11. When the note is paid off, how much will cash be credited?

STUDENT SELF-CHECK III

Use a plain sheet of paper and number from 1 through 11. DO NOT WRITE ON THIS PAGE. From the account titles, words and terms, you are to place on your sheet of paper the letter corresponding to the correct answer for each of the statements below. Some items may be used more than one time. (When you complete the Student Self-Check, compare your answers with those at the back of this packet. Review the instruction sheets if necessary before taking the Post-Test.)

ACCOUNT TITLES

A. Accounts Payable
B. Accounts Receivable
C. Cash
D. an individual Account Payable
E. an individual Account Receivable
F. Interest Expense
G. Interest Income
H. Miscellaneous Administrative Expense
I. Notes Payable
J. Notes Receivable

WORDS AND TERMS

K. discounting a note
L. maturity value
M. promissory note

1. A written statement that you will pay a certain amount to someone at a definite rate of interest in a specific number of days is called a _____.

2. The process of paying interest on a loan before you get the money and having it deducted from the principal is called _____.

3. The process of "selling" a note receivable to the bank for a specific discount rate is called _____.

4. When you accept a note receivable from someone, you generally debit an account called _____.

5. The bank service charge for collecting a note receivable for you is debited to an account called _____.

If you accept a note receivable from a customer for an extension of time on the customer's account, you would credit the following accounts:

6. _____ and

7. _____.

8. The _____ of a note receivable is the principal plus the interest due.

9. When paying off a note payable plus interest due on the note, the interest would generally be debited to an account called _____.

10. When you receive payment for a note receivable plus interest, the interest would generally be credited to an account called _____.

11. When payment is received for any note receivable, you would always debit _____ whether there is interest due or not.

PRE-TEST/POST-TEST

You are to make the following entries in the appropriate journals and registers. Your instructor will supply the necessary forms you will need to complete this test. Your instructor will also indicate whether you are to use pen or pencil. DO NOT WRITE ON THIS PAGE. When you have completed this test, turn it in to your instructor who will correct it. Use the current year when making entries.

Sept. 1 Kent Martin signed our note receivable No. 38 for $250 for 30 days at 8% for an extension of time on his account. The date of the note is September 1.

1. Make the necessary entry in the proper register.
2. Make the necessary entry in the proper journal.

Sept. 3 Cliff Arnetter paid his note No. 36 for $600 plus 8% interest. The 60-day note was due September 3.

3. Make the necessary entry in the proper register.
4. Make the necessary entry in the proper journal.

Sept. 4 Your company issued note payable No. 17 to Third National Bank for a loan of $18,000 for 90 days at 8½% interest to be paid on the due date.

5. Make the necessary entry in the proper register.
6. Make the necessary entry in the proper journal.

Sept. 7 Your company decided to send a note payable No. 18 to Dickertt Corp. for an extension of time on account. The note is a 30-day note at 7% for $525.

7. Make the necessary entry in the proper register.
8. Make the necessary entry in the proper journal.

Sept. 14 You received a check from Bert Dent for the principal of $200 plus 8% interest on his 60-day note receivable No. 37 due today.

9. Make the necessary entry in the proper register.
10. Make the necessary entry in the proper journal.

Oct. 1 The bank just sent notice that it has collected note receivable No. 38 plus the interest due. The service charge is $1.50.

11. Make the necessary entry in the proper register.
12. Make the necessary entry in the proper journal.

Oct. 7 You paid note payable No. 18 to Dickertt Corp. plus the interest due.

13. Make any necessary entries.

MODULE NO. VI–G

NAME _____

DATE _____

INSTRUCTOR'S CHECKLIST

PERFORMANCE SCALE PRE-TEST/POST-TEST

N/A – The skill was not applicable to this situation

Poor – The student can not perform the skill

Fair – The student can perform this skill satisfactorily but requires periodic supervision and/or assistance.

Good – The student can perform this skill effectively without assistance and/or supervision

Excellent – The student can perform this skill without supervision and/or assistance with proficiency in speed

ACTIVITY	EVALUATION				
	N/A	POOR	FAIR	GOOD	Excellent
September 1: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 3: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 4: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 7: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 14: a. Made the necessary register entry.					

MODULE NO. VI–G

NAME_____

DATE_____

INSTRUCTOR'S CHECKLIST

PERFORMANCE SCALE

PRE-TEST/POST-TEST
(Continued)

N/A – The skill was not applicable to this situation

Poor – The student can not perform the skill

Fair – The student can perform this skill satisfactorily but requires periodic supervision and/or assistance

Good – The student can perform this skill effectively without assistance and/or supervision

Excellent – The student can perform this skill without supervision and/or assistance with proficiency in speed

ACTIVITY	EVALUATION				
	N/A	POOR	FAIR	GOOD	Excellent
b. Made the necessary journal entry.					
October 1: a. Made the necessary register entry.					
b. Made the necessary journal entry					
October 7: a. Made the necessary register entry.					
b. Made the necessary journal entry.					

SELF-CHECK I

Answer Key

1. Due Date = August 4

   June has 30 days total
   June 5 date of note
   25 days note to be held in June
   + 31 days note to be held in July
   56 days through July

   60 days
   –56 days
   4 days in August

2. General Journal

3. $380

4. Interest = $5.38

   $380 X .085 = $32.30 (Interest for 1 year)
   (60 days is 1/6 of a year)

   1/6 X $32.30 = $5.38

5. maturity value = $385.38 ($380.00 + $5.38 = $385.38)

6. Debit: Cash for $385.38

7. Credit: Notes Receivable for $380.00
   Interest Income for $5.38

8. Cash Receipts Journal

9. the date paid and "paid in full"

10. Discount = $2.25

    $385.38 maturity value
    X .07 discount rate
    $26.9766 discount for year
    (Bank would hold note 30 days which is 1/12 of a year)

    1/12 X $26.98 = $2.25

11. Proceeds = $383.13

    $385.38 maturity value
    – 2.25 discount
    $383.13 proceeds

12. Credit Interest Income for $5.38

13. Debit Miscellaneous Administrative Expense for $2.25

STUDENT SELF-CHECK II

Answer Key

1. Discount = $70

   $6,000 X .07 = $420
   (60 days is 1/6 of a year)
   1/6 X $420 = $70

2. Proceeds = $5,930

   $6,000
   − 70
   $5,930

3. $6,000

4. Cash Receipts Journal

5. Cash debited for $5,930
   Interest Expense debited for $70

6. Notes Payable for $6,000

7. General Journal

8. Debited: Accounts Payable and Jackson Company

9. Credited: Notes Payable

10. Interest = $3

    $300 X .06 = $18 (Interest for 1 year)
    (60 days is 1/6 of a year)
    1/6 X $18 = $3

11. $303

    $300 Principal
    + 3 Interest
    $303 Total Due

STUDENT SELF-CHECK III

Answer Key

1. M
2. K
3. K
4. J
5. H
6. B or E
7. E or B
8. L
9. F
10. G
11. C

BK
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RECORDING ACCOUNTING ENTRIES PERTAINING TO NOTES AND INTEREST

INSTRUCTOR'S HANDBOOK

Prepared by

Mrs. Katherine H. Cliatt

State Department of Education
Office of Vocational Education
Office Occupations Education
Columbia, South Carolina 29201

In Cooperation With

Vocational Education Media Center
Clemson University
Clemson, South Carolina 29631

1978

Module No. VI–G

INSTRUCTOR'S GUIDE TO LEARNING ACTIVITIES

MODULE TITLE: RECORDING ACCOUNTING ENTRIES PERTAINING TO NOTES AND INTEREST

OBJECTIVE(S) Given 13 business transactions pertaining to notes and interest, and the appropriate journals and registers, record at least 10 of the 13 entries without error.

INSTRUCTION SHEETS

		Learning Activity Numbers
I	**Title:** Entries Pertaining to Notes and Interest Receivable	1
II	**Title:** Entries Pertaining to Notes and Interest Payable	3

STUDENT SELF-CHECKS INCLUDED IN MODULE

I	**Title:** Student Self-Check I–Self test on Instruction Sheet I	2
II	**Title:** Student Self-Check II–Self test on Instruction Sheet II	4
III	**Title:** Student Self-Check III–Self test on both Instruction Sheets	5

SUPPLEMENTAL MATERIALS

Accounting textbook, probably a second-year textbook.	1, 2, 3, 4

TEXTBOOKS AND REFERENCE BOOKS SUGGESTED

Southwestern's, Century 21 Accounting, advanced course p. 341 – 369.	
Gregg's, Accounting 10/12, 2nd Edition p. 555 – 565.	

MANUALS, SPECIFICATION SHEETS REQUIRED

FILMSTRIP PRESENTATIONS & AV MATERIALS REQUIRED

SPECIAL TOOLS, EQUIPMENT & SUPPLIES REQUIRED

10-key adding machine or calculator would be helpful.	1, 2, 3, 4, 6
Student will need a pen or pencil, depending on which the instructor	1, 2, 3, 4, 5, 6
requires for accounting.	

ATTITUDES & VALUES TO BE DEVELOPED

The student should develop an understanding of promissory notes, when they are used in common business experiences, and what thought processes are involved in making the entries in the journals and registers.

* NOTES TO THE TEACHER TO ASSIST IN WORKING WITH THIS MODULE

A key for the Pre-Test/Post-Test is included with this Instructor's Guide. Please note that the forms used in your accounting textbook may vary from the ones enclose' 't might be necessary to point out any differences to your students before they begin this module.

A module entitled "Accounting Forms" has been completed and is available for your use from the Media Center. It contains blank forms that you may duplicate. Four pages of forms have also been included with this module. These may be duplicated if you prefer them.

An Instructor's Checklist for the Pre-Test/Post-Test has been included to help you evaluate the student's performance on the Pre-Test and the Post-Test. These perishable items must be duplicated for each student who completes the module.

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PRE-TEST/POST-TEST

Answer Key

CASH PAYMENTS JOURNAL

DATE		ACCOUNT TITLE	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	ACCOUNTS PAYABLE DEBIT	PURCHASES DEBIT	CASH CREDIT
13 19-- Oct.	7	Notes Payable (No. 18)		525.00				528.06
		Interest Expense		3.06				

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BK

PRE-TEST/POST-TEST

Answer Key

NOTES PAYABLE REGISTER

DATE ISSUED		NOTE NO.	PAYABLE TO	DATE OF NOTE YR.	DATE OF NOTE MO.	DATE OF NOTE DAY	TIME	DUE DATE YR.	DUE DATE MO.	DUE DATE DAY	PRINCIPAL AMOUNT	RATE OF INTEREST	DATE PAID	COMMENT
5 19- Sept.	4	17	Mid Nat'l Bank		9	4	90da		11	3	18,000.00	8½ %	13 10/7	
7	7	18	Duckett Corp.		9	7	30da		10	7	525.00	7 %		Paid in full

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PRE-TEST/POST-TEST

Answer Key

CASH RECEIPTS JOURNAL

	DATE		ACCOUNT TITLE	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	SALES CREDIT	ACCOUNTS RECEIVABLE CREDIT	CASH DEBIT
4	19-- Sept.	3	Notes Receivable (No. 36)			600.00			608.00
			Interest Income			8.00			
6		4	Notes Payable (No. 17)			18,000.00			18,000.00
10		14	Notes Receivable (No. 37)			200.00			202.67
			Interest Income			2.67			
12	Dec.	1	Notes Receivable (No. 38)			250.00			250.17
			Interest Income			1.67			
			Misc. Adm. Expense		1.50				

PRE-TEST/POST-TEST

Answer Key

NOTES RECEIVABLE REGISTER

DATE RECEIVED		NOTE NO.	RECEIVED FROM	DATE OF NOTE YR.	DATE OF NOTE MO.	DATE OF NOTE DAY	TIME	DUE DATE YR.	DUE DATE MO.	DUE DATE DAY	PRINCIPAL AMOUNT	RATE OF INTEREST	DATE PAID	COMMENT
19 July	5	36	Cliff Arnetter		7	5	60da		9	3	600.00	8%	3 9/3	paid in full
	16	37	Bert Dent		7	16	60da		9	14	200.00	8%	9 9/14	paid in full
1 Sept.	1	38	Kent Martin		9	1	30da		10	1	250.00	8%	11 10/1	collected by bank

PRE-TEST/POST-TEST

Answer Key

GENERAL JOURNAL

PAGE

	DATE		ACCOUNT TITLE	POST. REF.	DEBIT	CREDIT
2	19-- Sept.	1	Notes Receivable		250.00	
			Acct's Rec. / Kent Martin	✓		250.00
			Note No. 38			
8		7	Acct's Pay. / Dickert Corp.	✓	525.00	
			Notes Payable			525.00
			Note No. 18			

MODULE NO. VI–G

NAME_____

DATE_____

INSTRUCTOR'S CHECKLIST

PERFORMANCE SCALE PRE-TEST/POST-TEST

N/A – The skill was not applicable to this situation

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ACTIVITY	EVALUATION				
	N/A	POOR	FAIR	GOOD	Excellent
September 1: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 3: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 4: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 7: a. Made the necessary register entry.					
b. Made the necessary journal entry.					
September 14: a. Made the necessary register entry.					

MODULE NO. VI–G

NAME_____

DATE_____

INSTRUCTOR'S CHECKLIST

PERFORMANCE SCALE

PRE-TEST/POST-TEST
(Continued)

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Excellent – The student can perform this skill without supervision and/or assistance with proficiency in speed

ACTIVITY	EVALUATION				
	N/A	POOR	FAIR	GOOD	Excellent
b. Made the necessary journal entry.					
October 1: a. Made the necessary register entry.					
b. Made the necessary journal entry					
October 7: a. Made the necessary register entry.					
b. Made the necessary journal entry.					

GENERAL JOURNAL PAGE

DATE		ACCOUNT TITLE	POST. REF.	DEBIT	CREDIT

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CASH PAYMENTS JOURNAL

DATE		ACCOUNT TITLE	POST. REF.	GENERAL DEBIT	GENERAL CREDIT	ACCOUNTS PAYABLE DEBIT	PURCHASES DEBIT	CASH CREDIT

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NOTES PAYABLE REGISTER

DATE ISSUED	NOTE NO.	PAYABLE TO	DATE OF NOTE			TIME	DUE DATE			PRINCIPAL AMOUNT	RATE OF INTEREST	DATE PAID	COMMENT
			YR.	MO.	DAY		YR.	MO.	DAY				

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NOTES RECEIVABLE REGISTER

DATE RECEIVED	NOTE NO.	RECEIVED FROM	DATE OF NOTE			TIME	DUE DATE			PRINCIPAL AMOUNT	RATE OF INTEREST	DATE PAID	COMMENT
			YR.	MO.	DAY		YR.	MO.	DAY				